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C O N F I D E N T I A L SECTION 01 OF 02 ANKARA 000895

SIPDIS

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TAGS: [ECON](#) [ENRG](#) [IZ](#) [TU](#)

SUBJECT: SHELL AND TPAO TO ANNOUNCE MOU FOR WORK IN IRAQ

REF: AMITRANO-MALIK EMAIL MAY 6 2008

Classified By: Economic Counselor Dale Eppler for reasons 1.4 (b) and (d).

¶1. (C) Summary. On May 12, Shell will announce an MOU framework agreement with Turkish Petroleum (TPAO) to work together in Iraq, with Shell having its sights on the Akkas Field as a first step in their new partnership. TPAO is still trying to reverse the Iraqi Oil Ministry's April 14 decision which excluded TPAO from the list of companies pre-qualified to participate in the next tender for six Iraqi oil and gas fields. TPAO will send a delegation to Iraq to discuss the issue. The date for the visit has not yet been announced. We have heard at least three theories why TPAO was excluded from the list but none seem completely satisfactory. End summary.

Shell lends a hand to TPAO  
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¶2. (C) On May 12, Shell will sign a broad-based, MOU framework agreement with Turkish Petroleum (TPAO) which includes the possibility of conducting upstream and downstream activities in Iraq. Working as a partner with a pre-qualified company, TPAO should be allowed to enter into business in Iraq, even though it was excluded from the April 14 list of pre-qualified companies issued by the Iraqi Oil Ministry. We understand that Shell is interested in working with TPAO to develop the Akkas field, which also is important for Turkey.

Theory 1: TPAO has no ties to KRG but is punished  
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¶3. (C) According to NEA (ref email), the Iraqi Oil Ministry excluded companies from the prequalification list that had earlier signed deals with the Kurdistan Regional Government (KRG). This rationale is problematic when applied to TPAO, a state-owned entity which closely adheres to Turkish foreign policy, and which has not signed any contracts with the KRG and has not operated in Iraq since the Saddam era. There are two private Turkish companies operating in Northern Iraq: Genel Enerji and PetOil. (Note: NEA had listed a third: Impulse Energy/Big Sky. According to our research, both Impulse and Big Sky are Canadian companies, although Big Sky has a Turkish CEO.) Genel Enerji is a private company owned by the Cukurova Group, while PetOil is owned by Pet Holding. TPAO does not have any affiliation with either Genel Enerji or Petoil. It's difficult to explain why the Iraqi Oil Ministry would punish TPAO for the sins of private entities like Genel Enerji or Petoil when it is not punishing all U.S. companies for investments made by Hunt Oil in Northern Iraq.

Theory 2: TPAO lacks the capacity for major investments  
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¶4. (C) Another theory we've heard relates to the relative size of TPAO, a mid-sized oil and gas exploration and production company. According to MFA Energy Department Head Berris Ekinici, Iraqi Oil Minister Shahrستاني hinted during his March 7-8 visit to Ankara that TPAO might be too small to develop the six major oil and gas fields that Iraq will tender soon. According to Ekinici, Shahrستاني softened the news by mentioning the prospect of TPAO's inclusion in future tenders.

¶5. (C) In a separate conversation with StatOil Hydro Turkey General Manager Per Mrvang, we learned that TPAO's lack of financial prowess also could be a reason for its exclusion. Mrvang said TPAO didn't have capital needed to develop these fields without a partner. Moreover, as a state-owned company borrowing large sums is politically difficult because they need a Treasury guarantee. Mrvang said StatOil had similar problems when it was a young company. Of the three theories, this one seems to have the most merit.

Theory 3: The computer did it

¶6. (C) Yet another theory came from the Minister of Energy International Relations Department Head Cigdem Hatunoglu. She has been in touch with her counterparts at the Iraqi Oil Ministry, who blamed the computer software used to choose the pre-qualified companies for the exclusion of TPAO. While the Iraqis would not share the selection criteria, they suggested that TPAO submit revised data and try their luck with the computer again. Hatunoglu said TPAO expressed frustration with the Ministry's request to submit new data because the

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most up-to-date data had already been submitted. Hatunoglu said Energy Minister Guler was anxious to re-submit the data and hoped the result would be different. On May 6, we learned that a TPAO delegation would travel to Iraq to try to reverse the decision. At present, there is no date set for the delegation's visit.

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